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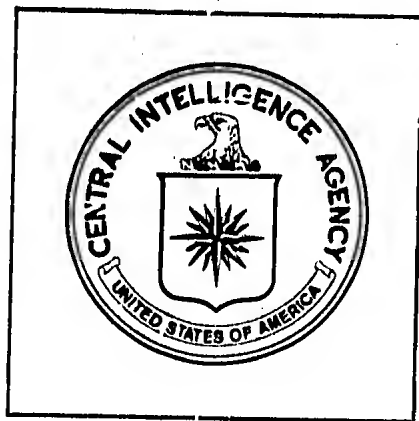
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MIDDLE EAST - AFRICA - SOUTH ASIA

This publication is prepared for regional specialists in the Washington community by the Middle East - Africa Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Iran

A View of the Imperial Family

A recent airgram from the US embassy in Tehran contains several interesting observations about the Iranian imperial family.

Shah Mohammed Reza Pahlavi

The embassy presents a picture of an increasingly confident, pragmatic ruler, sure of his own judgments, and generally intolerant of opposing viewpoints from advisers. Only Empress Farah, the Shah's twin sister Princess Ashraf, and Court Minister Alam appear able to disagree with the Shah with impunity. Other court advisers are "yes men." In recent years there have been few political setbacks for the Shah to temper his growing conviction that his views are inviolable.

Among those views is an apparent belief that the future will witness a transfer of power from the West to the Middle Eastern oil producers. He believes that economic changes initiated by OPEC are creating a new world economic situation in which the producers of raw materials will secure higher prices, and the world's wealth and power will be redistributed in their favor. His criticism of Western democracies as permissive is well known, and at times borders on contempt.

The Shah appreciates past US assistance, but, according to the embassy, will not allow his gratitude to obligate him to follow US policies that run counter to Iranian interests. He apparently believes that the value to the US of a stable Iran is so great that Washington has little choice but to support him.

Succession

The Shah, who is 55, is concerned with the survival of the approximately half-century-old Pahlavi dynasty following his death. His eldest son, the 14-year-old Crown Prince, is the constitutional successor and is being groomed for the throne. The

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Shah, through a constitutional amendment in 1967, sought to ensure a smooth succession. According to the amendment, if the Shah should die before the Crown Prince's 20th birthday, Empress Farah, the prince's mother, would become regent. She would rule, assisted by a special regency council of specified top government officials, until the Crown Prince reaches 20.

According to another scenario which the Shah himself has surfaced, he would abdicate at some future time in favor of his son, retaining the status of elder statesman and mentor. Such a maneuver would do much to derail challenges to the Crown Prince until he could establish his own authority, but it appears an unlikely option for the Shah who is so keenly interested in the exercise of power in his own right.

The Shah's decision to designate Farah as regent reflects his growing confidence in the loyalty and ability of the Empress. She is popular with Iranians--perhaps more so than her husband--and the Shah has in recent years sought to broaden her experience in matters of state. Should the Shah die unexpectedly, the Empress' popularity, the constitutional legitimacy of her position, and the expectation that she would rely on the Shah's top advisers suggest that a relatively smooth transfer of power and continuity of policy would occur.

Nevertheless, the Empress could not entirely fill the Shah's place, and an interregnum would likely be characterized by shifting alliances of powerful individuals and elite groups, each seeking to use the Empress for their own ends. The military and security forces, now largely apolitical, could become the key factor in such maneuvering.

In the embassy's view, Farah may not possess the manipulative skills necessary to head off such schemers as Princess Ashraf, who has built up a circle of influential court "supporters." Ashraf's palace intrigues with the Queen Mother against all three of the Shah's wives were once notorious. The

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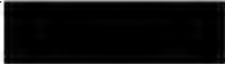
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Shah has curtailed her activities, but the embassy expects that in a post-Shah situation, Ashraf's drive for power, delight in intrigue, and rivalry with Farah could be detrimental to an orderly succession. (CONFIDENTIAL)

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Saudi Arabia

*Possible Change in Policy Toward
Foreign-Owned Banks*

Saudi Arabian Monetary Agency governor Qurayshi announced recently that foreign-owned commercial banks in the kingdom may have to sell a majority ownership to Saudis. In return, Qurayshi indicated that the banks would be given permission to undertake the expanded operations they have sought. The monetary agency controls the operation of foreign-owned banks and has limited their entry and the opening of branches. Most foreign-owned bank activity has involved financing foreign trade.

Qurayshi appears to be testing reactions in a preliminary step to prolonged discussions. First National City Bank officials plan to explore the topic with Qurayshi when he visits the US next month. The National Bank of Pakistan has set a precedent for Qurayshi's scheme by entering into a 60-40 partnership with Saudi citizens for a new bank in Saudi Arabia.

A move to majority Saudi ownership of banks could sharply reduce the expatriate bank managerial talent in Saudi Arabia. The Saudis would be hard pressed to find sufficient replacements to run existing commercial banks and at the same time meet the needs of their own expanding financial institutions. (CONFIDENTIAL)

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Malagasy Republic

Political Outlook

According to an assessment from the US embassy in Tananarive, the 19-member military committee that came to power earlier this month, following the assassination of the newly installed government leader Colonel Richard Ratsimandrava, is prepared to rule indefinitely. The embassy does not see the committee making any move to return government to civilian hands, from which it was taken in 1972.

The embassy anticipates, however, that an intra-committee struggle for influence--and perhaps eventually for power--will soon take shape. The conservative faction on the committee is headed by General Gilles Andriamahazo, the 55-year-old chairman of the ruling group. The radical faction is led by committee member Didier Ratsiraka, the architect of Madagascar's nonaligned foreign policy. The ambitious and dynamic Ratsiraka, who has taken charge of foreign affairs within the ruling committee, has already moved to block the resumption of communications from the NASA satellite station near Tananarive until the US meets his demands for retroactive payment for use of the facility; his demands are in excess of what a Malagasy negotiator agreed to in 1974.

Top military and security officers outside the committee might well play an important role in any showdown over power. The embassy believes that in a showdown, the conservatives will probably be backed by army and gendarmerie leaders and probably by army Colonel Rabetafika, director general of government under the former head of government, General Ramanantsoa. The ambitious Rabetafika, who has no government post at the moment, might see himself as an eventual successor to Andriamahazo, and would view Ratsiraka as a rival for power.

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Meanwhile, some in the Malagasy government appear convinced there was a French hand in the recent upsurge of ethnic tensions on the island, the abortive coup in early January by disaffected army officers from coastal tribes, and perhaps even the assassination of Ratsimandrava by rebels. The blame is not pointed at the government in Paris, the former colonial power, but at French businessmen in Madagascar and some personnel in the French embassy in Tananarive.

The francophile Malagasy Socialist Party, led by former vice president Andre Resampa, is suspected by many of having conspired with the rebel army officers. The Socialist Party, along with other parties, has been suspended by the government, and Resampa was reportedly arrested following fighting in mid-February between government forces and army and police rebels.

Suspensions of French involvement will be fueled by the announcement in Paris on February 21 that Richard Rahevelo, a former collaborator of ex-president Tsiranana--ousted by the military in 1972--is forming a provisional government-in-exile. The exile, who is trying to bring together all Malagasy socialists, called for better relations with France and a return to civilian rule. (CONFIDENTIAL NO FOREIGN DISSEM/BACKGROUND USE ONLY)

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~~SECRET~~Nigeria*Labor Unrest Subsiding*

Labor unrest, which became fairly widespread following a controversial pay hike for civil servants late last December, reportedly is subsiding. Agitation among civil servants died down by the end of January after the government agreed to rectify inequities in the original pay award. In the private sector, pay adjustments are being worked out by collective bargaining, and the number of settlements and serious negotiations is increasing. The government helped ease the financial squeeze on medium and small firms by decreeing that the period to be covered for the payment of wage arrears in private sector settlements should be reduced from nine to three months.

Despite these hopeful signs, more labor problems may lie ahead. Intermittent strikes are expected to continue in the private sector for several months. The labor scene could heat up in April when a promised pay raise for the armed forces falls due. Renewed labor controversy is likely if the new military pay scales are proportionately greater than those already granted to civil servants.

General Gowon's government generally has taken a soft line towards labor unrest and has maintained a low profile. Although strikes are illegal, little force has been used against strikers, and the government's basic response has been to give in to labor and management demands. The government's performance has conveyed the impression of indecision and a lack of firm leadership, offering domestic critics new opportunities to question the regime's effectiveness.

There has been little hard evidence to support public charges by Gowon and other top officials that political enemies have helped fan labor unrest. The

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government's most obvious opponents--former politicians such as Action Group leader Chief Awolowo--apparently are lying low to avoid giving the regime a pretext to act against them. The government's suspicions have been fueled in part by the circulation of an unauthorized military pay scale and a brief outbreak of student agitation over a variety of issues which resulted in the closure of three universities. (CONFIDENTIAL)

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Bangladesh-India

Irritants in Relations

Bickering between Bangladesh and India over a growing list of contentious issues threatens to sour generally good relations.

The most sensitive problem is the failure of the two sides to agree on a maritime boundary in the Bay of Bengal. The Bay is believed to contain sizable oil reserves, and both governments have granted offshore oil exploration concessions to US oil companies.

India has proposed a compromise line that would give Dacca one-fourth of the disputed 6,000-square mile territory. New Delhi has also asked its concessionaire to limit its exploration activities to indisputably Indian waters. Dacca so far has refused to accept the compromise boundary or to restrict its concessionaire.

Talks held almost monthly since November have failed to make any progress in the dispute.

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Another lingering dispute involves the sharing of water from the Ganges River. India wants to divert a substantial part of the river to reduce silting and improve navigation in the rivers of its West Bengal state. For this purpose, India has built a costly dam complex across the Ganges at Farakka, near the Bangladesh border. The Bangladesh government fears the dams will reduce the water supply to Bengalee agricultural areas.

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All feelings have also been caused by Indian publications criticizing Bangladesh President Mujib for imposing an authoritarian presidential system on his country. Mujib, [REDACTED]

[REDACTED] was particularly piqued by an Indian newspaper article comparing him to autocratic Pakistani rulers and reminding him that many Indians died helping to win Bangladesh's independence from such rule.

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Even if problems between the two sides were settled, the seeds of discord would remain. India is primarily Hindu, Bangladesh largely Muslim. Moreover, the economies of the two countries are somewhat competitive with both counting heavily on foreign exchange earnings from jute exports. Bangladesh also has a large trade deficit with India which apparently is growing despite Dacca's import restrictions. (SECRET NO FOREIGN DISSEM/NO DISSEM ABROAD/BACKGROUND USE ONLY/CONTROLLED DISSEM)

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